LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
301 State House
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FISCAL IMPACT STATEMENT

LS 7347 **DATE PREPARED:** Jan 4, 2001
BILL NUMBER: HB 1428 **BILL AMENDED:**

SUBJECT: Public Pensions.

FISCAL ANALYST: James Sperlik
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FUNDS AFFECTED: X **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides that an employee of a school corporation who is not a member of the Indiana State Teachers' Retirement Fund (TRF) shall be a member of the Public Employees' Retirement Fund (PERF), regardless of the number of hours the employee works during a year. It provides that a member of TRF who retires after June 30, 2001, and who serves on active duty in the armed services of the United States for at least six months is entitled to up to six years of service credit for the time served on active duty, to the extent that service credit is not granted for that time under existing TRF provisions concerning military service credit. The bill requires a member to have at least 10 years of creditable service in TRF before the member may claim the military service credit.

Effective Date: July 1, 2001.

Explanation of State Expenditures: *Teachers' Retirement Fund*: This bill provides that a member of TRF who retires after June 30, 2001, and who serves on active duty in the armed services of the United States for at least six months is entitled to up to six years of service credit for the time served on active duty, to the extent that service credit is not granted for that time under existing TRF provisions concerning military service credit. The bill also requires a member to have at least 10 years of creditable service in TRF before the member may claim the military service credit. Consequently, this bill will increase total unfunded accrued liabilities in the TRF plan by $75 M for both active and retired employees, as described below.

The TRF surveyed 30,000 TRF retirees, with 4,000 responding. The average teaching service of those who responded was 30.7 years, with the average military service amounting to 2.5 years. The average age of the respondents was 71.9 years, and the average current pension was $11,184. The average increase in pensions if six years of military service were granted would be 15.1%. If the six years were granted, the increase in unfunded accrued liabilities would total $50.4 M with the increase in payout for the first year amounting to $2,541,732 and $2,440,800 in the second year. The fund affected is the State General Fund. This is for the Pre-1996 Plan (Closed Plan).

The survey for active members of the TRF was sent to 84,000 active teachers, with 400 respondents. The average teaching service of those who responded was 23.1 years, with the average military service amounting to 3.1 years. The average age of the respondents was 53.6 years and the average current salary of those who responded was $54,684. If the two years of military service were granted, there would be an increase in the unfunded accrued liabilities of $24.6 M.

Below is a table that recaps the estimated costs of granting two years of military service to actives and retirees in the Teachers' Retirement Fund.

	Closed Plan	New Plan
Increase in Unfunded Accrued Liabilities:		
Retirees	$50.400,000	
Actives	$24.600,000	$2,541,732
Total	$75,000,000	$2,541,732
Increase amortized over 40 years % of payroll	14.1%	0.018%
Increase in State Payout current retirees:		
First Year	$2,541,7327	
Second Year	$2,440,8008	

Explanation of State Revenues:

Explanation of Local Expenditures: *Teachers' Retirement Fund*: It is possible that there may be TRF members of the 1996 Fund (New Plan) who would be eligible to retire with an increased benefit because of the provisions of this bill. For local school corporations, it could increase the percent of payroll required to fund the new benefit. The current cost of payroll is 8.5%.

Public Employees' Retirement Fund: It is not known how many members would be affected by this proposal and it is unknown what the demographics would be of any of the members affected by this bill. To roughly estimate the impact of this bill, it has been assumed that the demographics would be, on average, 45 years of age, ten years of service, and an annual salary of $25,000. These are close to the average demographics of State employees in PERF.

	2 Members Affected	50 Members Affected	500 Members Affected
Increase in Unfunded Actuarial Accrued Liability	$46,200	$1,150,000	$11,500,000
Increase in Annual Cost	$6,760	$169,000	$1,690,000

Explanation of Local Revenues:

State Agencies Affected: Teachers' Retirement Fund; Public Employees' Retirement Fund.

Local Agencies Affected: Local school corporations; local units with members in PERF.

Information Sources: Denise Jones of Gabriel, Roeder, Smith & Co., actuaries for the Teachers' Retirement

Fund, 1-800-521-0498; Doug Todd of McCready & Keene, Inc., actuaries for the PERF, 576-1508.

DEFINITIONS:

Funding- a systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

Unfunded Actuarial Liability (sometimes called the unfunded liability) of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.